

# ***Capital Outlay***

---

## **1. Introduction to the Capital Budget**

The Commonwealth's capital budget invests significant resources in the construction and maintenance of public assets that are critical to our quality of life, the strength of our economy and the efficient functioning of our government. Through the capital budget, the Commonwealth funds a wide range of public assets, including:

- Higher education facilities at the University of Massachusetts and state and community colleges;
- State highways, bridges and mass transit;
- Public housing;
- Open space resources, state parks and playgrounds;
- Public safety facilities and equipment;
- Municipal roads and bridges, libraries, parks, public safety facilities and other local infrastructure;
- Courthouses and correctional facilities;
- Information technology; and
- State office buildings and facilities.

It is imperative that the Commonwealth maintain its existing capital assets. In addition, it needs to take advantage of opportunities to make new capital investments that will yield vast improvements in the quality of life and economic vitality of the state. These capital investment demands are significant, however, and the Commonwealth has limited resources to fund them.

During its first year in office, the Patrick-Murray Administration has managed the capital budget in a transparent and fiscally responsible manner to ensure the efficient and effective use of the state's limited resources to address our capital needs and to further capital investment priorities that best serve the interests of the Commonwealth. The Administration's proposed \$2.198 billion FY09 capital budget is guided by the Administration's long-term vision of the Commonwealth and its public infrastructure. Further, the proposed capital budget is based on the priorities and affordability standards set forth in the Administration's FY2008-2012 Five-Year Capital Investment Plan<sup>1</sup>.

## **2. Vision**

The Patrick-Murray Administration has a long-term vision of a well-maintained and strategically located system of mass transit, roads, bridges, housing and commercial areas that breathes life into our economy and supports the creation of hundreds of thousands of quality jobs; a vision of world-class educational facilities that provide a supportive, technologically advanced and safe environment for every single one of our children to learn, to grow and to be productive and engaged members of our 21<sup>st</sup> century society; a vision of energy-efficient public buildings, a transportation system that encourages and facilitates the use of environmentally sensitive modes of transportation, public infrastructure that promotes sustainable and smart development, clean air and water, well-maintained parks and recreational areas, and protected natural forests, landscapes and open spaces.

This is a vision of high-quality public infrastructure in our communities where we live, work, raise our families and run our businesses; a vision of state-of-the art facilities and equipment that enable our public safety officers to keep us safe; a vision of technologically advanced systems for administering subsidized state health care to ensure quality, affordable health care for the neediest of Massachusetts residents; and a vision of state government buildings, equipment, technology and other resources that support an efficient and responsive state government.

---

<sup>1</sup> "FY2008-2012 Five-Year Capital Investment Plan", published August 2007, is available at [http://www.mass.gov/Eeoaf/docs/fy08\\_capital\\_budget.pdf](http://www.mass.gov/Eeoaf/docs/fy08_capital_budget.pdf)

### 3. Challenges

The Administration confronts major challenges in realizing its long-term vision of the Commonwealth and of its public infrastructure – specifically the enormity of the capital needs coupled with significant financial constraints. Some of these needs have arisen recently, while many others have long been evident but left unaddressed due to inadequate investment in our public assets. There is ample evidence of a history of inadequate investment in our public assets, including the following examples:

- An independent Transportation Finance Commission has found that the cost simply to *maintain* our current transportation system exceeds anticipated resources by \$15 to \$19 billion over the next 20 years.
- The University of Massachusetts reports a deferred maintenance backlog of more than \$2.6 billion across all five of its campuses. Based on a 2003 study, capital needs at our 24 state and community colleges over the next 10 years total \$2.9 billion in current dollars.
- Even conservative estimates by the Division of Capital Asset Management and Maintenance suggest that there are almost a billion dollars in deferred maintenance projects at state facilities (excluding transportation, higher education, public housing, and most parks and recreational facilities).
- The Department of Housing and Community Development estimates that \$75 to \$145 million per year is needed over the next ten years just to repair the damage from years of neglect of our state's 50,000 public housing units – *plus* \$75 million per year just to maintain *status quo* conditions.

The size of the capital budget is subject to significant constraints. The Commonwealth's debt is among the highest in the nation by some measures. Moreover, the portion of the state's operating budget that can be spent on debt service is limited not only by statute, but more importantly, by the fact that tax revenues are also needed to meet rapidly growing operating needs.

### 4. Administration's First-Year Accomplishments in Capital Finance

One of the highest priorities of the first year of the Patrick-Murray Administration was to pursue a thoughtful and fiscally responsible approach to address the challenges of immense need and constrained resources to make progress toward its vision for public infrastructure that supports a better Commonwealth. To that end, the Administration has compiled a series of accomplishments in the area of capital finance, as highlighted below.

#### *Immediate Needs Bond Bill*

Immediately recognizing the urgent need for bond authorization to carry out FY07 and early FY08 capital spending needs, the Administration worked with the Legislature to develop and obtain the expedited passage of the \$1.58 billion immediate needs bond bill shortly after taking office. Passage of this bond bill was necessary in order to: secure federal grants; address safety concerns and critically-needed repairs; carry on with projects that had already started or were planned to start, and thereby avoid further project cost inflation; avoid significant disruptions that would be caused if standard capital programs were stopped due to a lack of funding; and proceed with legally mandated projects.

#### *Debt Affordability*

One of the earliest priorities of the Patrick-Murray Administration was to determine the affordability of Commonwealth debt and, based on that analysis, to develop a rational and transparent policy for setting the state's annual borrowing limit or "bond cap". Because the capital program is funded primarily through borrowings authorized by the Legislature, the total size of the capital program is determined to a large extent by the amount of debt the Commonwealth can afford to issue. The existing statutory debt limit and debt service limits represent only an upper limit on the amount of direct debt the Commonwealth may incur and they do not relate to affordability.

The Administration engaged in a rigorous analysis of the state's outstanding debt obligations and of the state's capacity to issue additional debt within affordable levels. Based on this analysis, the Administration established a policy for setting the bond cap that keeps payments for debt service and debt-like obligations within 8% of budgeted revenues and limits future annual growth of the bond cap to not more than \$125 million.

Unlike any prior Administration, the Patrick-Murray Administration developed and published a debt affordability analysis and a policy for setting the annual bond cap. Based on this policy, the FY08 bond cap was set at \$1.5 billion and the bond cap is projected to be \$1.625 billion in FY09, \$1.750 billion in FY10, \$1.875 billion in FY11 and \$2 billion in FY12. After extensive modeling, A&F has projected that the Commonwealth will have the capacity to accommodate these steady increases in the bond cap over the next five years while *decreasing* the percentage of the Commonwealth's budgeted revenues needed to pay debt service during that period. This will result in increased capacity in the capital budget to make needed investments in public infrastructure and greater capacity in the operating budget to fund needed state programs.

The credit rating agencies have reacted positively to this debt affordability analysis and policy. The Administration intends to revisit the debt capacity and affordability analysis every year, revising its estimates for future years by taking into account fluctuations in interest rates, revenues, and other changes impacting the Commonwealth's debt capacity.

### *Five-Year Capital Investment Plan*

For the first time ever, this Administration engaged in a comprehensive, diligent, fiscally responsible, transparent and inclusive process to develop a multi-year capital investment plan. The Five-Year Capital Investment Plan, published in August 2007, strategically allocates resources to invest in the Commonwealth's public facilities and programs and represents a strong step forward toward the Administration's vision for public infrastructure.

The Plan, which will be formally reviewed and updated annually, includes a discussion of the Governor's vision for a better Commonwealth, the challenges and constraints to fully achieving this vision and the approach this Administration is taking to address the challenges in pursuit of the vision. The Plan discusses ways to leverage additional resources created by the state's capital investments as well as several innovative financing mechanisms to be strategically applied as a means to increasing capital spending.

Specifically, the Administration:

- Began the capital planning process with a rigorous review of the Commonwealth's debt capacity in order to establish an affordable size for the bond-funded capital program. The result was the Debt Affordability Analysis which is appended to the 5-year plan and the results of which are briefly described above.
- Broadly solicited information about capital spending needs from legislators, state agencies and other stakeholders to ensure that it was well-informed about the many worthy capital project needs in determining how best to allocate the Commonwealth's limited capital funding resources.
- Evaluated each project based on criteria established to prioritize projects and made project-based funding allocation decisions rather than spending agency allocations.

### *Bond Bills*

Since September 2007, the Administration has filed the following bond bills seeking legislative authorization to fund the Administration's capital investment plan.

<b>Bond Bills (in millions)</b>		
<b>Investment Category</b>	<b>Amount</b>	<b>Date Filed</b>
Life Sciences	\$ 500.00	July 19, 2007
Higher Education	2,000.00	October 10, 2007
Broadband	25.00	October 18, 2007
Housing	1,090.00	November 16, 2007
Transportation	2,905.12	November 29, 2007
Energy & Environment	1,400.00	December 21, 2007
General Government	2,558.00	January 4, 2008
Total	<u>\$10,478.12</u>	

These bond bills are based on what the debt affordability analysis and five-year capital investment plan demonstrate the Commonwealth can afford to borrow to fund the related areas of capital investment. *This is the*

## FY2009 Governor's Budget Recommendation

*first time in recent history that a Governor of the Commonwealth has sought bond authorizations based on a rational, affordable, transparent and fiscally responsible debt policy and capital investment plan.*

Of the nearly \$10.5 billion in bond bills that the Governor has filed to fund the five-year capital investment plan, over \$1.7 billion is intended to fund capital investments in life sciences, higher education and correctional facilities six to ten years from now. Consequently, only about \$8.8 billion of the bond authorizations sought are intended to cover the next five years of state capital investments. The Governor's five-year capital investment plan published in August 2007, which was based on the debt affordability analysis, provides for \$8.8 billion to be spent from bond proceeds over the next five years. The \$8.8 billion of bond authorization sought in the bond bills covers virtually all of the \$8.8 billion of planned expenses, a limited amount of flexible authorization to cover unforeseen capital needs that are likely to arise and authorization for the entire cost of certain projects that are planned to begin within the next five years but that won't be completed until after that period.

Prompt passage of these bond bills by the Legislature is necessary to address critical needs of the Commonwealth and to fund capital investment priorities set forth in the five-year investment plan.

## 5. Capital Spending

### *Historical Capital Spending*

The following table displays historical capital spending from FY03 through FY07.

<b>Historical Capital Investments (in millions)</b>					
	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>
Information technology	\$ 76	\$ 75	\$ 61	\$ 88	\$ 53
Infrastructure	274	251	262	283	271
Environment	134	113	122	142	153
Housing	112	121	122	129	140
Public safety	37	20	18	19	18
Transportation	1,697	1,458	1,300	1,189	1,120
Economic development	311	177	93	42	33
School building assistance	-	-	565	435	-
Total Uses*	\$2,641	\$2,215	\$2,543	\$2,327	\$1,786

\* May not add due to rounding. Does not include capital spending for certain projects that were originally funded with current year revenues and were not funded pursuant to the capital budget.

The \$800 million decrease in budgeted capital spending over the last five fiscal years is due to a reduction in spending on the Central Artery/Tunnel Project (CA/T Project) as the project has neared completion. In FY03, the Commonwealth spent approximately \$1 billion on the CA/T Project, while the FY07 costs were approximately \$228 million.

A temporary increase in capital investments occurred in FY05 and FY06 as a result of \$1 billion expended by the Commonwealth to fund grant obligations for the new Massachusetts School Building Authority (MSBA) inherited from the Department of Education's waitlist of school construction projects. The Commonwealth's funding for this program is now complete and the MSBA's project funding is entirely supported by a dedicated portion of the state sales tax.

The primary source of funding for capital projects is proceeds from general obligation bonds. Other significant sources of capital funds during the last five years were funds from special obligation bonds, grant anticipation note proceeds, operating revenues, third party payments and federal reimbursements. The following table shows the recent historic trend of sources of funds for capital spending.

**Historical Sources of Funding (in millions)**

	FY03	FY04	FY05	FY06	FY07
General obligation bonds	\$1,472	\$1,285	\$1,850	\$1,647	\$1,208
Special obligation bonds	230	119	64	9	2
Grant anticipation notes	24	-	-	-	-
Operating revenues	354	133	194	44	49
Third party payments	52	63	99	274	26
Federal reimbursements	509	615	336	353	501 <sup>2</sup>
Total Sources*	\$2,641	\$2,215	\$2,543	\$2,327	\$1,786

\* May not add due to rounding.

***FY08-FY12 Five-Year Capital Investment Plan***

In its five-year capital investment plan, the Patrick-Murray Administration recharacterized capital spending into 13 categories based on spending purpose, rather than spending agency: higher education, transportation, economic development, housing, energy and environment, public safety, corrections, information technology, health and human services, state office buildings and facilities, courts, community investments and building maintenance. This new presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in previous years. For example, local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally owned assets. Similarly, expenditures for Department of Conservation and Recreation roads and bridges appear in the transportation category, rather than the energy and environment category. A&F feels this recharacterization is a more accurate and transparent way to look at capital spending. Also,

The Patrick-Murray Administration's five-year capital investment plan reflects a significant shift in priorities compared to recent years. To illustrate this shift, the following table presents a comparison of FY07 actual capital spending and FY08 budgeted capital spending based on the new investment categories.

**FY07 Actual v FY08 Projected Capital Investment (in millions)**

Investment Category	FY07	FY08	Difference FY08 v FY07	% Change FY08 v FY07
Higher Education	\$ 32.2	\$ 124.8	\$ 92.6	287.6%
Transportation	995.6	1120.6	125.0	12.6%
Economic Development	13.1	64.7	51.6	393.9%
Housing	129.2	170.5	41.3	31.9%
Energy & Environment	128.1	141.7	13.6	10.6%
Public Safety	25.4	45.0	19.6	77.2%
Corrections	34.3	17.4	-16.9	-49.3%
Information Technology	53.1	161.5	108.4	204.1%
Health & Human Services	21.5	46.4	24.9	115.8%
State Office Buildings & Facilities	28.2	26.2	-2.0	-7.1%
Courts	117.0	58.5	-58.5	-50.0%
Community Investment Program	182.4	271.1	88.7	48.6%
Building Maintenance	28.0	30.5	2.5	8.9%
Total*	\$1,786.1	\$2,279.0	\$ 492.9	

\* May not add due to rounding. Does not include capital spending for certain projects that were originally funded with current year revenues and were not funded pursuant to the capital budget.

As shown in the table above, the Administration is significantly increasing capital spending the areas of higher education, economic development, housing, transportation, community investments and others.

<sup>2</sup> Includes \$104 million of temporary expenditures by the Commonwealth in anticipation of federal reimbursements for the CA/T project that are being withheld from the project by the federal government pending approval of the Turnpike Authority's finance plan for the project.

**FY2009 Governor's Budget Recommendation**

The table below presents the full five-year capital investment plan.

**Five-Year Capital Investment Plan (in millions)**

Investment Category	FY08	FY09	FY10	FY11	FY12	5-Year Total	% of 5-Year Total
Higher Education	\$ 124.9	\$ 133.1	\$ 146.0	\$ 172.0	\$ 200.0	\$ 776.0	6.4%
Transportation	1,120.7	990.5	1,003.0	1,239.6	1,364.3	5,718.1	47.6%
Economic Development	64.7	117.4	147.0	143	159.0	631.1	5.3%
Housing	170.5	170.5	161.8	166.5	166.5	835.8	6.9%
Energy & Environment	141.7	138.0	136.7	122.2	116.4	655.0	5.5%
Public Safety	45.1	54.8	75.9	71.7	43.0	290.5	2.4%
Corrections	17.5	19.2	24.6	34.7	46.9	142.9	1.2%
Information Technology	161.6	107.7	82.2	83.0	79.7	514.2	4.3%
Health & Human Services	46.4	59.0	77.3	96.0	88.0	366.7	3.1%
State Office Buildings & Facilities	26.2	33.9	41.8	53.8	43.8	199.5	1.7%
Courts	58.5	72.2	92.6	86.0	83.3	392.6	3.3%
Community Investment Program	271.1	272.2	272.6	266.5	266.5	1,348.9	11.2%
Building Maintenance	30.5	30.5	31.0	29.7	30.2	151.9	1.3%
Total*	\$2,279.2	\$2,198.7	\$2,292.4	\$2,564.0	\$2,686.5	\$12,021.6	

\* May not add due to rounding. Does not include capital spending for certain projects that were originally funded with current year revenues and were not funded pursuant to the capital budget.

The following table shows the expected sources of funding for the Administration's five-year capital investment plans.

**Five-Year Capital Investment Plan – Sources of Funding (in millions)**

	FY08	FY09	FY10	FY11	FY12	5-Year Total	% of 5-Year Total
Bond cap	\$1,555.7	\$1,625.0	\$1,750.0	\$1,875.0	\$2,000.0	\$ 8,805.7	73.2%
Federal funds	494.2	459.9	475.3	526.7	517.5	2,473.6	20.6%
Project-funded bonds	75.5	51.2	62.7	157.8	162.0	509.2	4.2%
Other/third party	153.8	62.6	4.4	5.3	7.0	233.1	1.9%
Total*	\$2,279.2	\$2,198.7	\$2,292.4	\$2,564.8	\$2,686.5	\$12,021.6	

\* May not add due to rounding

It is important to note that capital projects and priorities evolve and change, and it is the Administration's intention to adjust the capital plan as circumstances dictate. The Administration will undertake a formal reassessment of capital investment needs and prepare an update to the five-year capital plan on an annual basis before each new fiscal year.

## 6. FY09 Capital Budget

The \$2.198 billion FY09 capital budget is based on the Five-Year Capital Investment Plan published in August 2007 and is consistent with the significant shift in capital investment priorities that began in FY08 by the Patrick-Murray Administration. The following table summarizes the total budgeted spending by investment category.

<b>FY09 Budgeted Capital Investments (in millions)</b>	
<b>Investment Category</b>	<b>FY09 Budget</b>
Higher Education	\$ 133.1
Transportation	990.5
Economic Development	117.4
Housing	170.5
Energy & Environment	138.0
Public Safety	54.8
Corrections	19.2
Information Technology	107.7
Health & Human Services	59.0
State Office Buildings & Facilities	33.9
Courts	72.2
Community Investment Program	272.2
Building Maintenance	30.5
<b>Total*</b>	<b>\$2,198.0</b>

\* May not add due to rounding

The following highlights the Administration's capital investment priorities for FY09 by each investment category.

	<i>FY09 Capital Budget</i>
<i>Higher Education</i>	<i>\$133,117,250</i>

The Administration believes strongly that our public colleges and universities should have the infrastructure necessary to ensure student access and affordability, and be well-equipped to support academic achievement and learning for all students. They should also be responsive to the demand for a talented workforce ready and able to participate in a growing and increasingly global economy. Capital investments are critical to the mission. In fact, the Administration has planned for the most significant growth in bond-cap funded spending in this category. Investment will grow from 3% of the total bond-funded capital investment in 2007 to 10% by 2012.

Capital spending in FY09 will continue to target particular investments, including:

- Providing funding for instruction and research facilities;
- Target adaptation and renewal of existing space in order to extend the useful life and maximize the potential of our existing assets;
- Address safety and accessibility for students and researchers and faculty; and
- Focus on enhancing workforce training and development program.

	<i>FY09 Capital Budget</i>
<i>Transportation</i>	<i>\$990,454,939</i>

Our network of transportation infrastructure is a critical factor affecting the strength of our economy, the quality of our environment and the quality of our lives. Our roads, bridges, mass transit and other modes of transportation provide us with access to work, school, and goods and services; they provide businesses with the ability to move their goods and services to meet demand; they impact our environment in different ways; and they provide us with the mobility and freedom to get where we want to go when we want to get there. High-quality, strategically developed transportation infrastructure is an essential component of a thriving economy, clean environment, and stable society.

Specific capital investment highlights of the FY09 transportation capital investment plan include:

- Federally-assisted statewide road and bridge programs;
- Continue to address legally mandated projects intended to mitigate the environmental impact of the Central Artery/Tunnel project;
- Continued investment in the planning phase of the South Coast Rail project and other transit projects; and
- Perform critical repair needs on the Department of Conservation and Recreation roads and bridges.

The five-year plan in general and the FY09 budget in particular cannot adequately address the extraordinary needs of the transportation network in Massachusetts. The Massachusetts Transportation Finance Commission (TFC) recently concluded that to simply bring the existing surface transportation system to a state of good repair and maintain it at that level, Massachusetts will need to close at least a \$15 to \$19 billion funding gap over the next 20 years. Notably, expansion in capacity and/or service levels, widely considered necessary to serve a growing economy, are generally not included in the gap number and will cost even more. To attempt to address these issues, the Administration is evaluating options to more effectively manage existing transportation assets and resources and needed infrastructure improvements as discussed briefly below.

The five-year plan and the FY09 budget do, however, make the most of the limited resources available and make progress in addressing the needs of our transportation system. Transportation-related capital spending in FY08 was 12.5% greater than in FY07, and, by FY12, transportation-related capital spending is expected to be 37% more than FY07. This level of investment, together with additional casino-related revenue that would be dedicated to transportation under the Governor's destination resort casino proposal, would reduce the funding gap identified in the TFC report by as much as \$7 billion.

	<i>FY09 Capital Budget</i>
<i>Economic Development</i>	<i>\$117,421,539</i>

Having a robust economy is important not only for the Commonwealth's own citizens, but also for the economic vitality of the region and the country. Consistent with the Governor's commitment to create 100,000 new jobs in Massachusetts, the Administration will continue to target capital investments to ensure that the Commonwealth creates an environment that encourages a wider range and greater number of businesses to remain or relocate to Massachusetts in support of continued job growth. In addition to direct investment in this category, hundreds of millions of dollars in planned investments in the Transportation and Community Investment categories will foster economic development.

Specific economic development investments planned for FY09 include:

- Continued funding for the Massachusetts Opportunity Relocation and Expansion (MORE) Jobs capital program which provides grants for public infrastructure improvements that support business expansion and relocation;
- Investment in the Massachusetts Broadband Initiative to provide affordable, accessible internet access to unserved and underserved areas of the state; and
- The capital component of Governor Patrick's Life Sciences Initiative, which will support the building of new public research centers designed to attract academic and industry leaders to Massachusetts.

	<i>FY09 Capital Budget</i>
<i>Housing</i>	<i>\$170,500,000</i>

The accessibility of desirable, affordable housing is a critical factor for the success of our economy, as new jobs will only be created if the workers needed to fill them can obtain desirable, affordable housing in close enough proximity to their places of employment. This accessibility is also an objective we should have as a caring, civilized society. There is much government does and can do in this area. State spending for housing in Massachusetts includes both state-supported public housing and private affordable housing development. The state's public housing portfolio supports some of our most vulnerable citizens, including the elderly, veterans and clients of the state's human services agencies. The public housing stock is in desperate need of maintenance



and improvements. Private housing in Massachusetts has become increasingly expensive, with most Massachusetts residents citing housing costs as more of a concern than education and health care. The Patrick-Murray Administration is committed to making significant investments in affordable housing through the capital budget.

FY09 highlights include:

- Continued investment of at least \$85 million for public housing, a more than 50% increase over the FY07 investment level;
- Targeted spending for various private affordable housing development programs, including investment in the Affordable Housing Trust Fund, Housing Stabilization Fund and other programs supporting affordable home ownership.

<i>Energy &amp; Environment</i>	<i>FY09 Capital Budget</i>
	\$137,999,981

The Executive Office of Energy and Environmental Affairs stewards an incredible diversity of natural resources and infrastructure for the Commonwealth and managing these resources requires significant capital investment. In particular, capital funds pay for important infrastructure projects, such as flood control measures, dam rehabilitation, improvements to recreations facilities, wildlife habitat protection, environmental hazard remediation, park and trail maintenance, and open space acquisition. Other capital investments are made to projects and programs that contribute to clean water, clean air, clean energy, natural resources, agricultural resources and more.

The FY09 capital budget includes:

- At least \$50 million in spending for land protection, consistent with the Administration's five-year plan of investing at least \$250 million for land protection;
- Preservation of landscapes and habitats;
- Repair and maintenance needs in state parks and recreational facilities; and
- Clean and renewable energy investments, including energy efficiencies in state buildings and facilities.

<i>Public Safety</i>	<i>FY09 Capital Budget</i>
	\$54,767,985

The Commonwealth's capital spending supports important public safety projects and programs that ensure the safety of our citizens and communities. The capital needs range from crime prevention to disaster preparedness and response. Significant public safety-related investments are also included in the Information Technology and Correctional Facilities categories.

Specific FY09 public safety-related capital investments will include:

- Acquisition of medical, security, communications and other equipment needed at public safety agencies;
- Acquisition of new state cruisers and installation of mobile data units; and
- Investment in new fire training facilities.

<i>Corrections</i>	<i>FY09 Capital Budget</i>
	\$19,230,000

In order to carry out justice and to protect the citizens of the Commonwealth, it is important that we have secure and safe jails and correctional facilities for individuals charged with and convicted of crimes. It is also in the interest of society as a whole that those convicted of crimes come out of correctional facilities after serving their terms with the skills and mind-set needed to become productive members of society rather than repeat offenders.

Underinvestment in our facilities has resulted in prison overcrowding, inadequate facilities for female inmates, an inability to adequately address an increasing number of mental health needs and the medical care required of an

## **FY2009 Governor's Budget Recommendation**

aging prisoner population. In addition to these important needs, our correctional facilities face significant ongoing capital maintenance needs.

The Administration has proposed spending a total of \$450 million of bond authorization for improvements to correctional facilities over the next ten years. Investment amounts for specific projects will be guided by the comprehensive 10-year master plan for capital investments in correctional facilities that is currently being developed.

FY09 spending will be targeted to certain critical repair projects, projects recommended in the master plan and improvements at correctional facilities aimed at preventing prisoner suicides, including the capital improvements recommended by the Hayes report.

<i>Information Technology</i>	<i>FY09 Capital Budget</i>
	<i>\$107,653,677</i>

Information technology spans all areas of government. IT enables customer-facing functions such as transaction processing, license and permit applications and renewals, and public information access and alert; it also supports internal processes such as cross-agency information sharing, management efficiencies, and data security. While some agencies pay for certain small-scale IT projects from their operating budgets, most major IT installations are paid for by the capital budget. The 5-year capital plan makes strategic investments in IT, leveraging federal and other funds wherever possible.

Of particular focus in the FY09 capital budget will be the modernization of certain critical state IT systems to support the provision of more efficient, responsive and transparent government services, including beginning to replace and upgrade the outdated and overburdened systems at the Department of Revenue and the Registry of Motor Vehicles that support the administration and enforcement of state tax collections and motor vehicle fees.

<i>Health &amp; Human Services</i>	<i>FY09 Capital Budget</i>
	<i>\$59,007,034</i>

The provision of health care and other social services to those most in need has long been an important function of government, and in Massachusetts the provision of these services accounts for nearly half of the Commonwealth's annual operating budget. The Health and Human Services facilities are numerous, including hospitals, clinics, long and short-term care facilities, power plants and garages. The average age of the HHS facilities was recently estimated to be 75 years since original construction and few facilities have undergone major upgrades in the recent past. The immense capital needs include investment in repair and maintenance to maintain service and care quality as well as basic public safety and the demolition of obsolete and unsafe structures. FY09 capital spending will focus on the construction of a new state psychiatric hospital in Worcester that will replace two obsolete psychiatric hospitals and critical repairs and other improvements several facilities across the state.

<i>State Office Buildings &amp; Facilities</i>	<i>FY09 Capital Budget</i>
	<i>\$33,900,000</i>

Safe, convenient and accessible state office buildings and facilities are necessary for the efficient and effective functioning of government. There exists a significant backlog of deferred maintenance in the state's facilities and many require structural improvements, elevator replacements and improvements to comply with changing building codes and accessibility requirements.

FY09 spending plans include:

- Developing a second data center to provide redundancy to the state's ability to function in the event of an emergency;
- Performing a variety of repair and planning projects; and
- Investment in energy efficiencies through conservation retrofits and renewable energy projects.

<i>Courts</i>	<i>FY09 Capital Budget</i>
	\$72,211,310

The Commonwealth operates 61 court facilities in 39 communities across the state. The Massachusetts Trial Court system also includes 25 county-owned courts and 28 other facilities. Significant capital spending on court facilities has occurred over the past five years yet continued investment is necessary not only for the effectiveness of court operations, but also for the health and safety of court staff and members of the public who participate in the judicial system.

FY09 spending will focus on:

- New courthouse projects in Fall River, Taunton, Salem and Lowell; and
- General repairs and renovations at courts across the state.

<i>Community Investment Program</i>	<i>FY09 Capital Budget</i>
	\$272,232,903

The quality of municipally-owned infrastructure has an enormous impact on our daily lives and provides the necessary foundation for business to grow and flourish. The Patrick-Murray Administration is committed to partnering with cities and towns to improve infrastructure, promote economic growth, invest in public safety, affordable housing, smart growth development strategies, and energy efficiency.

In support of this commitment to assist municipalities, the FY09 Community Investment Program includes spending for:

- Local economic development projects;
- municipal road projects;
- construction of libraries;
- acquisition of conservation land and recreational facilities;
- assistance in energy efficiency projects; and
- investment in local public safety facilities.

<i>Maintenance</i>	<i>FY09 Capital Budget</i>
	\$30,156,675

While it is understood that failure to invest in preventive and on-going capital maintenance needs of the Commonwealth's buildings and facilities ends up costing taxpayers much more in major repairs later on, deferred maintenance at state facilities has reached startling levels. Significant steps have been undertaken in recent years to address this issue, including the implementation of the Capital Asset Management Information System in 2000 which has enabled the cataloguing of virtually all state facilities, their maintenance needs and improvements made. The FY09 level of capital investment is at the same level as FY08, but the Administration intends to explore opportunities to more efficiently and effectively manage available funds to protect Commonwealth investment in buildings and facilities. See discussion below.

## **7. Next Steps and Initiatives**

### *Personnel*

The General Government Capital Needs Bill filed on January 4, 2008, includes a \$250 million authorization for the acquisition of equipment. The state currently spends over \$50 million per year for equipment in the annual operating budget. Meanwhile, prior administrations in recent years have increased the number of state employees being funded through the capital budget, which now relies on borrowed funds to fund personnel. The Governor is proposing to use this bond authorization to begin to reverse the fiscally imprudent practice of funding state employees on the state credit card. By borrowing to pay for the acquisition of capital equipment instead of state employees, \$50 million of capacity can be freed up on the operating budget to fund hundreds of state employees currently funded with borrowed funds.

### *Transportation Reform*

The Patrick Administration is working with legislators and other stakeholders on a major transportation reform initiative with the objectives of better coordinating statewide transportation policy, more efficiently managing the Commonwealth's road, bridge and transit assets and more effectively financing its transportation infrastructure investments. The Administration expects to file legislation soon seeking the authorization to implement a final transportation reform proposal.

### *Maintenance*

In recognition of the importance of maintenance to the useful life and function of the state's assets, the FY09 operating budget includes funding for a study of maintenance management and funding practices and establishes a commission to make findings and recommendations on opportunities to improve the way in which the Commonwealth manages and finances its facilities maintenance.

### *FY09-FY13 Five-Year Capital Investment Plan*

For the first time ever, this Administration engaged in a comprehensive, diligent, fiscally responsible, transparent and inclusive process to develop a multi-year capital investment plan. The Five-Year Capital Investment Plan, published in August 2007, strategically allocates resources to invest in the Commonwealth's public facilities and programs and represents a strong step forward toward the Administration's vision for public infrastructure. The initial plan covered the five years from FY08 to FY12 and was not intended to be the final work on our state's capital investment strategy. Throughout the current fiscal year, the Administration has closely monitored the status of projects and needs, and if and where necessary is prepared to make adjustments to spending allocations to ensure that the Commonwealth's capital investments are both responsible and responsive to changing needs and priorities.

The Administration also has committed to conducting a formal reassessment and publication of a new capital spending plan each fiscal year. As such, over the next several weeks and months, A&F will reach out to agencies, legislators and other stakeholders to create a fiscally responsible plan to address the enormous capital needs of the Commonwealth in a period of constrained resources. The approach of formally reassessing the capital investment plan on an annual basis strikes the right balance between laying out a long-term vision for state capital investments that enables agencies to plan and preserve flexibility to adapt to changed circumstances.

